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THE PICTURE: Can anyone predict the future? Can anyone know what lies over the horizon? One can have premonitions, one can be intuitive, and a few people may even possess psychic powers in certain areas. But be careful; predicting usually turns out to be more of an ego trip than a science. Better still, ponder the following paragraph from Ecclesiastes 7:13:

"Consider the work of God. Who can set straight what He has made crooked? When times are prosperous enjoy your happiness. When times are bad consider this: the one is God's doing as is the other -- in order that man may know nothing of his destiny."

I'll tell you a secret; I'm dizzy from reading dozens of stock market scenarios -- scenarios covering every possibility from what the market will do in the next six weeks to where the US will be five years from now. And that's what made me turn to the strange little quote above from Ecclesiastes. The sad fact is that man can know little or nothing of his destiny. And maybe it's just as well. For how many of us could function if we knew for certain what tomorrow or next week would bring?

But what about the stock market and the economy? Is there some kind of crystal ball we can use for charting the future of Wall Street? Obviously, there is no perfect crystal ball. But there is one extremely useful tool. That tool is the study of the stock averages, as interpreted under DOW THEORY. I base that statement on a single thesis: The averages contain all the information anyone knows about anything (economic, social or political) that can affect corporate health or corporate profits. The stock averages represent a minute to minute distillation of 50 million minds and 50 million opinions. In short, the stock averages are our best and most reliable barometer of coming events on Wall Street.

All right, how about the situation today? Wouldn't you say that the stock market has taken leave of its senses? Here's the Dow within shooting distance of its all-time high, and two-thirds of the states in the union are in recession. The GNP has gone flat, and in every corner of the US we can see major trouble. What's this market doing, indulging in the economic equivalent of heroin? People ask me this question over and over again, and I tell them that where the market is concerned, I don't invest on the basis of stories in the Wall Street Journal or the New York Times or Forbes, I invest only one way -- with the trend of the market as interpreted under Dow Theory.

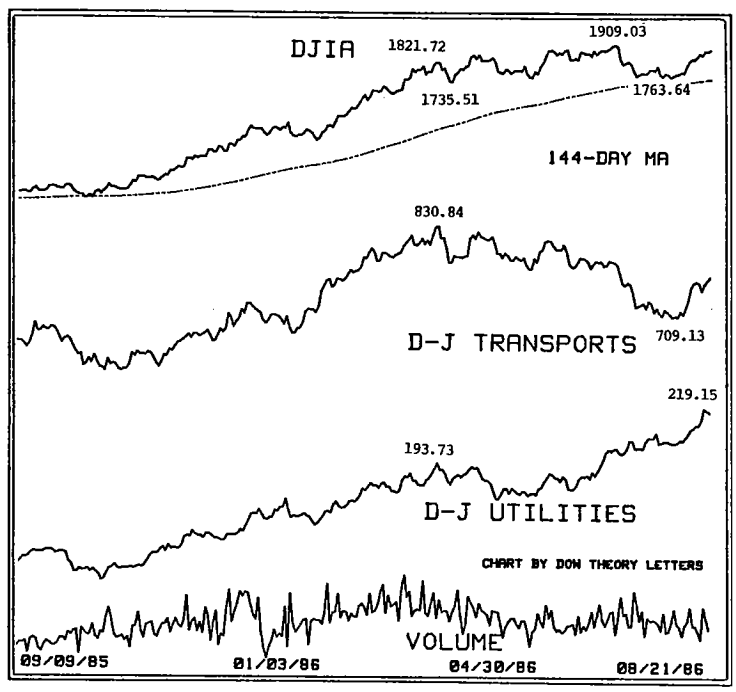
Sure, I've read about how the massive debt in America is going to bust this nation wide open. And that argument sounds depressingly logical to me (it sounded logical to me five years ago). And I've been told on "good authority" that the 1987-88 time period will absolutely produce THE top for this great bull market. Maybe so, maybe not. And I'm told that within a few years AIDS, deficits, cocaine and crack will spell the end of the US as we know it, and the projections for all of these items are certainly terrifying enough. Furthermore, I know from personal observation that the bulk of our politicians are irresponsible when it comes to money matters or guarding the financial health of this nation. And certainly that alone should (in time) spell the downfall of the US.

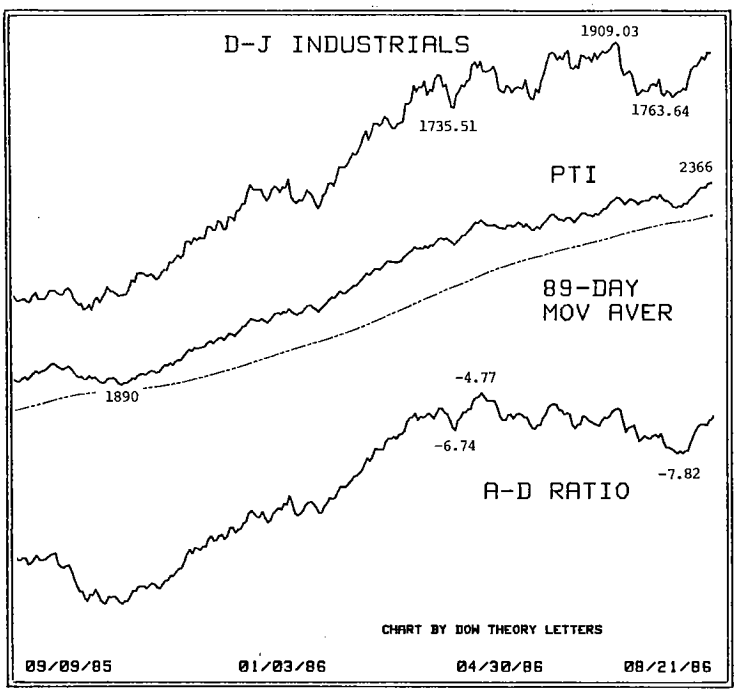
But as logical (and scary) as all these scenarios are, I am also aware that the stock market KNOWS MORE. The stock market knows more than any economist, any Wall Street genius or any group of experts. In spite of this, confusion reigns. My friend Bob Prechter says that following a new Dow high and an ensuing correction, the Dow is going to rise to over 3,000. A dozen other stock market services that I receive say that the Dow will never see 2,000. Ashby Bladen, the formidable Forbes columnist, states in the Aug. 25 issue, "The current depression began in 1982." He states further (referring to 1929), "Here, now, in the summer of 1986, it looks to me as if history is about to repeat itself". On the other hand, Joe Granville has foresaken his bearish stand and is now extremely bullish. And the excellent Stock Market Logic report (Norman Fosback) believes we are still in a big bull market, but he gives the bull maybe one more year and then -- trouble.

As for me, I do think that the bull still lives. True, I'm bothered by the fact that there are now an unbelievable 1,200 mutual funds in existence with a new one being formed just about every day. I'm bothered by the fools in Washington who are running our government, I'm freaked out by a federal deficit that is pushing toward $2.5 trillion, and I'm terrified by the sheer amount of junk bonds that are being created and sold to an innocent and somehow optimistic public.

But with it all, I continue to run my business and handle my investments on the basis of the Dow Theory. Frankly, if I operated on the basis of what I read in the newspapers and magazines, I'd be locked in a tiny room with a shotgun across my knees, probably somewhere on a remote part of Tahiti or the Fiji Islands.

The Dow Theory is still firm in saying that we are in a big primary bull market. One of the tenets of the Dow Theory states that "the trend is taken to remain in force until PROVED otherwise." As of this writing, there has been no "otherwise." We've had no primary bear signal, and until we do I'll operate on the thesis that the primary trend of this market remains bullish.





Another tenet of Dow Theory states that "neither the extent nor the duration of a primary movement can be predicted in advance." In other words, once a bull market is underway, there isn't a man, woman or committee on the face of this green earth who can tell you how far the bull market is going on the upside or how long it is going to take to get there.

There is an old Wall Street adage that states that "the stock market is a law unto itself." That means that the market has a mind and a life of its own, and it is not given to man to predict or to tell the stock market where it is going or how high or when. Furthermore, if anyone is so bold as to lay out a blueprint for the market's future, the surest thing you can say about such a prediction is that it is almost guaranteed to be WRONG.

So let's stop the guessing and examine the action of the market itself, and let's see if we can make some sense out of what has been happening. From a Dow Theory standpoint, the Averages (so far) have done a good job in telling us what is occurring. The D-J Transportation Average recorded its bull market high on March 31 at 830.84 (see page 1 chart). The D-J Industrial Average recorded its bull market high three months later on July 2 at 1909.03. From those lofty heights, both Averages traced out corrective declines -- Industrials down to 1763.64 on August 1, and Transports down to 709.13 on August 4. Both of those points can be seen on the page 1 chart.

Now it is obvious that the Transport Average has been the weak sister in the Averages. From its March 31 peak, the Transports traced out a long series of lower tops and lower bottoms, with the last low being (as stated) the 709.13 low of August 4. It's surprising to me, but since March all Wall Street seems to have had its eyes glued on those weak Transports. Twenty or even 10 years ago, nobody cared what the Transports were doing (they were supposed to have been "obsolete") but since April the cry has gone out, "The Transports are falling, the Transports are falling!" And so they have.

But for some reason nobody wants to remember that ***the Averages must confirm -- that a movement of one Average unconfirmed by the other is meaningless for prediction purposes, and more likely than not -- deceptive.***

So let's turn to the action of the other Average -- the Industrial Average. Note that the Industrial Average has been tracing out higher lows and higher highs. Since the beginning of April the Dow has persistently refused to confirm the weakness in the Transports. In fact, each new low in the Transports has been greeted with a HIGHER bottom in the Dow. And finally, on July 2 the Dow rallied to an all-time high of 1909.03.

The big question from here is what will the Averages do next? Because if we are assuming (and we are) that the bull market is still in force, we must also assume that in due time both Averages will better their preceding highs. That is the NORMAL bull market expectation. It doesn't have to happen, of course, but that's the expectation. As I said, correct procedure is to ASSUME that this is still a bull market.

But hold it. It's all very comforting and it's correct procedure to insist over and over again that the bull lives, but just in case a change is coming to the market, how do we identify trouble? How do we identify action that isn't normal? Here it is in a very important nutshell. The two Averages, Industrials and Transports, have now recovered (retraced) a good part of their recent declines. If the Averages now move toward the old highs, and if one or both Averages FAIL TO BETTER those highs, we have to be careful, very careful. Because if the two Averages then turn down and they BOTH break their recent lows (Industrials below 1763.64, Transports below 709.13), such action would signal that the primary trend has reversed from bull to bear.

There is one area of confusion in the price picture. The last JOINT highs in the Averages were struck in late-March. From those highs, Industrials declined to 1735.51. In all downside tests since then, the Industrial Average has never been lower. So from the late-March peaks, the lowest point recorded in the two Averages were 1735.51 for Industrials, 709.13 for Transports. For that reason, I feel it might be preferable to use the lower Industrial point for a primary bear signal level.

In other words, giving the bull market every benefit of the doubt, the critical downside levels would be 1735.51 for Industrials, 709.13 for Transports. Let's hope on any downside test, one or both of those levels will hold.

Technically, there are a lot of items that cause me to think (or hope) that the primary bull forces are still in command and that we are NOT going to see a bear signal. First, over the past four months the Industrial Average has had every opportunity (amid tons of rotten news) to break down -- but it has refused to do so.

If the primary trend was now bearish (in other words, if we were now in a bear market) my guess is that the kind of rotten economic news that we have been hearing throughout 1986 would already have knocked the stock market to its knees. To put it another way, bear markets don't tend to hold up in the face of bad news; quite the opposite, they tend to crumble. But look how well the 1986 stock market has held up, and the news has been poor, bad, awful (take your choice).

Second, the Fed has been flooding the economy with liquidity. Business may be bad, but today there's no shortage of credit. You can see it in the money supply figures, you can see it in the billion dollar takeover craze on Wall Street, you can see it when a new mutual fund comes to market (for instance, Mario Gabelli is out to raise $400 million for his new closed-end fund, and does anyone doubt that he can do it?!).

Third, on August 14 my PTI rose above its recent peak of 2334 to a new bull market high. The PTI has shown persistent strength throughout July and August, and this kind of stubborn PTI strength is characteristic of bull market, not bear market, action. Honestly, the PTI's strength has surprised me, but I've stated this many times before, and I'll state it again, "The PTI is a lot smarter than I am". It kept up its march into new-high territory recording an all-time high of 2360 on August 20.

Next, I had been saying for months that the stock market was over-bought, and that the Industrial Average had moved too far ahead

of itself. I said further that it would be normal for the Dow to come down and test its long-term moving average. This is really what happened during August, and you can see on the page 1 chart that the Dow did indeed decline to the vicinity of its 144-day moving average before rallying. Such action is all very normal and to be expected. In fact, it relieves a very over-bought situation

The Utility Average has been extremely strong and has been hitting record highs amid the general market weakness of the last four months. A super-strong Utility Average in no way guarantees that a bull market is in force, but it constitutes a big plus in the technical picture (and the same may be said of the strong bond market).

On August 14 the NYSE produced over 1,000 advances for the fourth day in a row. This kind of action, historically, has been very positive. The last time we had four consecutive days of more than 1,000 advances was back in August 1984, and prior to that we had four consecutive days of 1,000 advances in October 1982. Both of those rather rare "upward breadth concentrations" were followed by higher markets (in 1982 higher for the next 8 months, and in 1984 higher throughout the remainder of '84 and all through 1985).

Finally, I note that there is still a good deal of caution among analysts and the public at this time. In fact, I'd say that the public's preoccupation with mutual funds (rather than the stocks themselves) is indicative of caution. It's as if the public was saying, "Here -- you do it. Every time I pick a few stocks on my own, they go down." I submit that this is not the kind of sentiment that usually exists at the peak of a great bull market. On the contrary, at or near the ultimate peak one usually finds the public gambling its head off in the junk stocks and in the cats and dogs of Wall Street.

Question: Russell, you talked in recent Letters about a trading range for the market with the Dow fluctuating between 1600 and 1900. But in this Letter you say that if the Dow breaks 1763.64 (or at the extreme 1735.51) accompanied by the Transports breaking 709.13, we're in a bear market. Why the change in outlook?

Answer: I spend a lot of time studying and agonizing over the stock market and its actions and its patterns. And as time passes, the formations and the actions of the Averages will change. In other instances, what I didn't see or didn't want to see or didn't notice one week may become clear to me a few weeks later. Put it this way, in the present case the formation in the Averages has caused me to take very seriously a potential joint breaking of the aforementioned lows.

You know, if I had only one opinion a year I would write only one report a year. As it is, I write 26 Letters a year, and I do this so that subscribers can be updated on my latest thinking. What I have written in this Letter represents my latest thinking. And my latest thinking is that I would NOT like to see those August lows smashed by BOTH Averages.

Question: Russell, what's your intuition on the market? Do you think those August lows are going to hold or not?

Answer: The best answer I can give is that one must always give the primary trend the benefit of the doubt. Since the primary trend was last confirmed as bullish, I'd say that the odds favor the bull market continuing and therefore the odds favor one or both of the Averages holding their August lows regardless of any potential market weakness. But obviously, in the end, it's the market itself that will make the decision -- regardless of my feelings or the odds or historical precedent or anything. else.

Back in 1959 I used to run an ad in Barron's and the caption for that ad was, "The Story is in the Averages." That caption could run just as well today. The Averages tell the story; I just try to interpret what the Averages are saying.

Question: So you're taking the position that the bull market is in force, but that at this juncture we have to keep an open mind?

Answer: Exactly. I feel that we are now in a situation where the Fed sees the business picture (and it's not a good picture), and in an attempt to counteract what they see (and remember, an election is coming up) the Fed has flooded the markets with liquidity. For instance, the trend of the discount rate has been down and down. You almost never see a true bear market materializing under such conditions. I feel that the market understands this, and it has been "treading water" as this ocean of liquidity slowly washes over the US. It seems to me that at this point the stock market is looking AHEAD, probably six months to a year or more ahead — to the time when all this liquidity is going to sift back into the economy and work to turn business up again.

If this is all true, then the job of the stock market is to hold together until today's bad news passes. And during this period it's obvious that corporate America is becoming "lean and mean." Every day we read of corporate cleanouts, divisions being sold, firings, tough new labor contracts, basically the jettisoning of inefficient people and departments. American corporations are acting to become profitable again. Today they're doing whatever they have to do -- to get the job done.

Meanwhile, the Fed is working overtime in trying to bring rates down, even to the point of pressuring or cajoling our allies (Japan and Germany) to bring their own rates down -- all, of course, in a coordinated effort to fire up the Free World's economies. And our allies are no fools. They know that if the US economy goes in the tank, their economies go in the tank with us. So in the end they will cooperate. They'll kick and they'll scream -- but they WILL cooperate.

Finally, the big collapse in the dollar will ultimately be a plus for the US, assuming that the dollar's slide can be controlled and that the falling dollar will not scare foreigners out of holding our debt. In all, it's a delicate balancing act, and it's a situation that is fraught with danger. But count on it — the market will do a far better job of weighing the pros and cons than you or I will.

Just consider how many disaster scenarios you have read about in the last six months. Then look at the action of the stock market during that same period. Which has shown the better grasp of coming events? The answer is self-evident -- so if you're like me, you'll bet on the stock market every time!

GLOBAL: Almost every problem and vexation in the US economy can now be traced to a single concept -- the US is now an integral part of the global economy. This means that the US is no longer THE leader in world finance, research, manufacturing, agriculture, production. No, the US now must COMPETE in all these areas. For instance, where US steel workers now make an average of $38,000 a year (including all benefits), Asian steel workers get roughly $1.40 an hour. Result: the US is being pushed out of the steel business. In research the US no longer possesses a world monopoly, and we are now competing across the board with major manufacturers in two dozen different countries. In finance the Japanese are now invading Wall Street.

In every area of American business we now see foreign firms moving in, buying in, taking a piece of the action (last week's examples: Japanese buying of 15% of Goldman Sach's profits, rumored purchase of 15% of USX (formerly US Steel) by an Australian group. US interest rates are now tied to German and Japanese rates, US agricultural exports are now running into severe foreign competion, US auto dealers are bewildered by a rash of new foreign car models and makes. In short, it's a new world, and it's a global world. The days of carefree US supremacy in world markets are over -- forever.

One of the areas which is now being drastically changed by the global concept is investing. Funds, institutions and sophisticated investors are now thinking global rather than simply "which US securities do I buy." A week ago I listened to the head of a fund which invests strictly on the basis of the classic Ben Graham method of fundamental analysis. This fellow said that his fund is now almost completely invested in high-value foreign stocks. He added that only two US

companies qualified for inclusion in his portfolio (on the basis of his severe valuation methods). The two companies were Chase Manhattan and General Motors.

INVESTMENT POSITION: The bull is firmly in the box. If you want to know what to invest in, the market is telling you -- loud and clear! I've been saying for over a year that the operative phrase in investing is going to be SAFE INCOME. Suddenly, with the emergence of the new tax bill, intelligent investors everywhere are realizing the truth of this statement. The new tax bill will reward those opting for income since the tax on income will drop from the present top rate of 50% to 28% or, at worst, 33%) while the new tax bill will penalize those opting for price appreciation (since the tax on capital gains will rise from the current top rate of 20% to 28% or even 33%). Let me put it another way: High-grade financial assets (which produce income) are now IN, while hard assets (Which produce no income) are OUT. Also OUT are speculative and low-grade stocks (neither of which produce income). Also OUT will be over-priced real estate (which produces little or no income).

As things now stand, the ideal investments for the 1980s and beyond are quality bonds and utilities. Both produce income, and good utilities offer rising dividend income. The new tax bill has spoken. If you don't believe it, look at the action of the bonds and utilities. In a word, they have been, and are, STRONG.

Only one thing will drive any of the hard assets up from here, and that's inflation. But inflation is history -- we're now in a deflationary environment (two exceptions: gold could rally on the fear of a banking or a dollar crisis, and platinum could go up on the fear of South Africa going down).

What everyone knows (in other words, common knowledge) isn't worth a thing as far as the market is concerned. The market deals with what lies ahead, and often what lies FAR ahead. It's now common knowledge that business here in 1986 is poor, and that it will probably remain poor during most of 1987. So what's the stock market doing? it appears to me that the stock market (which is acting quite well) is looking FAR ahead -- past the deflationary effects of the new tax bill -- to 1988 when a good deal of the deflationary adjustments will be over. The strength of this market is the blue-chip Industrial Average (safe income) and the high-grade, income-producing Utility Average. It's going to stay that way for a while.

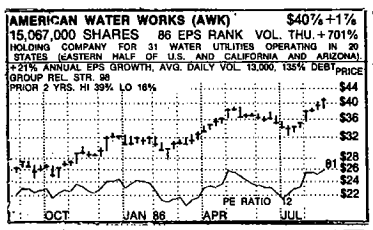
I've been making my pitch for the water utility stocks for many months now. But the story is still on my mind, and I hope that ALL my subscribers have purchased at least a few of the water stocks mentioned here. As of this date, the 16 listed water utility shares are up 25.4% for the year, and when you add average dividends of around 5% to 6% this makes a very nice total return. Last week one-third of all the listed water stocks hit new highs for the year.

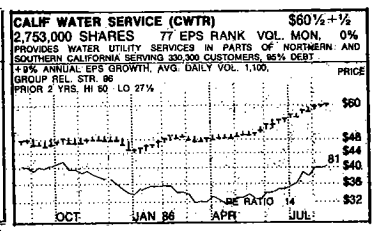
I'm not going to go into the whole water story again (I've repeated it too many times in these reports), but suffice it to say that water is fated to become one of the scarcest commodities around. And unlike so many other scarce commodities, there is NO SUBSTITUTE for water -- absolutely NONE! The fact is that the US is facing a severe water shortage, and this shortage is (1) not generally recognized by the American public, and (2) going to get worse with each passing year. There are government-owned water companies and public water companies. Obviously we can't benefit from anything the private water utilities do, but we can participate in the growth and fortunes of the 16 water utilties which are listed.

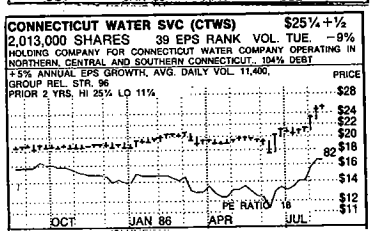
My feeling all along has been that a collection of at least five of the water utility stocks would represent a good investment in the future of water. I continue to think that way, and I continue to urge my subscribers to get in on the water picture. It is just a matter of time before water sells on a pure supply/demand basis. When that happens it will mean just one thing -- HIGHER PRICES FOR WATER.

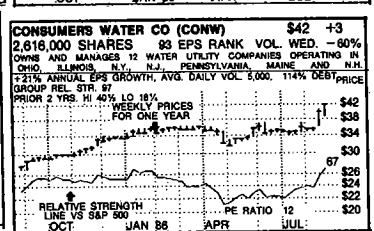
Incidentally, a book has just been published entitled "Cadillac Desert, the American West and its Disappearing Water" by Marc Reisner (Viking). This book tells the shocking story of how the Bureau of Reclamation gradually evolved into a pork-barrel agency serving fat-cat corporate farmers and how the West's water has literally been given away. Take my word for it, readers, the days of cheap or give-away water are fast coming to an end. Within five years you won't recognize the water situation in this nation (particularly in the West).

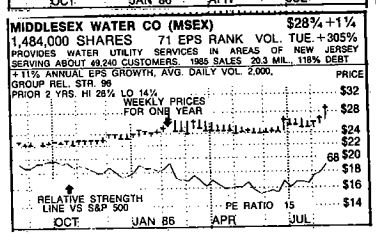
Back to the water stocks. Some of the water utility stocks I like are American Water Works, the holding company for 31 water companies (traded on the NYSE, symbol AWK); Consumers Water (CONW, OTC); E'Town Corp. (formerly Elizabethtown Water (EWAT, OTC)); The Hydraulic Co. (THC on the NYSE); Southwest Water Co. (SWWC, OTC); California Water Service (CWTR, OTC); United Water Resources (UWR, NYSE); Middlesex Water (MSEX, OTC); Connecticut Water Svc. (CTWS, OTC), Indianapolis Water Co. (IWTR, OTC). Charts below are courtesy of Investor's Daily.


AMERICAN WATER WORKS (AWK) $40⅞+1⅞
15,067,000 SHARES 86 EPS RANK VOL. THU.+701%
HOLDING COMPANY FOR 31 WATER UTILITIES OPERATING IN 20 STATES (EASTERN HALF OF U.S. AND CALIFORNIA AND ARIZONA).
+21% ANNUAL EPS GROWTH, AVG. DAILY VOL. 13,000, 135% DEBT
GROUP REL. STR. 98
PRIOR 2 YRS. HI 39⅝ LO 16⅝
PE RATIO 12
OCT JAN 86 APR JUL


CALIF WATER SERVICE (CWTR) $60½+½
2,753,000 SHARES 77 EPS RANK VOL. MON. 0%
PROVIDES WATER UTILITY SERVICES IN PARTS OF NORTHERN AND SOUTHERN CALIFORNIA SERVING 330,300 CUSTOMERS, 95% DEBT.
+ 9% ANNUAL EPS GROWTH, AVG. DAILY VOL. 1,100,
GROUP REL. STR. 86
PRIOR 2 YRS. HI 60 LO 27¼
PE RATIO 14
OCT JAN 86 APR JUL


CONNECTICUT WATER SVC (CTWS) $25¼+½
2,013,000 SHARES 39 EPS RANK VOL. TUE. −9%
HOLDING COMPANY FOR CONNECTICUT WATER COMPANY OPERATING IN NORTHERN, CENTRAL AND SOUTHERN CONNECTICUT. 104% DEBT
+ 5% ANNUAL EPS GROWTH, AVG. DAILY VOL. 11,400,
GROUP REL. STR. 96
PRIOR 2 YRS. HI 25¼ LO 11⅛
PE RATIO 16
OCT JAN 86 APR JUL


CONSUMERS WATER CO (CONW) $42 +3
2,616,000 SHARES 93 EPS RANK VOL. WED. −60%
OWNS AND MANAGES 12 WATER UTILITY COMPANIES OPERATING IN OHIO, ILLINOIS, N.Y., N.J., PENNSYLVANIA, MAINE AND N.H.
+21% ANNUAL EPS GROWTH, AVG. DAILY VOL. 5,000, 114% DEBT
GROUP REL. STR. 97
PRIOR 2 YRS. HI 40⅝ LO 18¼
WEEKLY PRICES FOR ONE YEAR
RELATIVE STRENGTH LINE VS S&P 500
PE RATIO 12
OCT JAN 86 APR JUL


MIDDLESEX WATER CO (MSEX) $28¾+1¼
1,484,000 SHARES 71 EPS RANK VOL. TUE.+305%
PROVIDES WATER UTILITY SERVICES IN AREAS OF NEW JERSEY SERVING ABOUT 49,240 CUSTOMERS. 1985 SALES 20.3 MIL., 118% DEBT.
+ 11% ANNUAL EPS GROWTH, AVG. DAILY VOL. 2,000,
GROUP REL. STR. 99
PRIOR 2 YRS. HI 28¾ LO 14½
WEEKLY PRICES FOR ONE YEAR
RELATIVE STRENGTH LINE VS S&P 500
PE RATIO 15
OCT JAN 86 APR JUL

ANNOUNCEMENT: The new tax bill is going to disallow the tax write-off for investment advisory services. As a matter of fact, the bill will disallow your write-off for safety deposit boxes, accountants, seminars, publications such as the Wall Street Journal, etc.

So if you want the write-offs, you are going to have to take 'em THIS YEAR. Consequently, I'm making the following offer (now that my by-pass operation is over, and I'm starting to feel strong and healthy again): You can extend your subscription to Dow Theory Letters for another two years for $400, for three years for $575 and for an additional four years for $740. So that's it, your chance to tune into Richard Russell and get a tax deduction for up to four years ahead.

* *

NOTES & QUOTES: Little-known facts about people you know: Dr. Ruth Westheimer, the TV sex therapist, was trained as a sniper for the Hagganah, the revolutionary Jewish underground organization. ... Prince Charles is a strict vegetarian. ... Richard Russell's first job was as a textile designer under textile executive Alfred Schlossberg (it was Schlossberg's son, Edwin, who just married Caroline Kennedy).

Under the new tax bill, if you make over $35,000 as a single or over $50,000 on a joint return (and you're not covered by a pension plan),

you get no write-off for an IRA. In which case, I say, "Who needs it." If you're in a high bracket, you're better off buying muni bonds than putting more money in an IRA with no write-off. With munis you keep all the tax-free income while in an IRA you are simply deferring the taxes on the income, and you are also giving up a certain amount of control with an IRA. So if you're making big money, forget the IRA and go for the tax-free income.

From our "When Your Hot, You're Hot" Dept: --

> TOKYO—Japan, which is under continuing pressure to curb exports and increase imports, posted a July trade surplus that was a record for any month.
>
> The Finance Ministry said the surplus swelled to $8.22 billion from $4.6 billion a year earlier. The July figure surpassed the previous record of $7.53 billion, set in May.

Truckin': Amazing Facts Dept: One out of every three vehicles sold in America today is a light truck. Ford and Chevrolet each sell more than 400,000 a year!

I don't like saying I told you so, but I told you so. I've been recommending high-grade munis for the last two years, and suddenly the public sees that they were, and probably still are, a bargain. The following clip is from the Aug. 22 LA Times.

One of Last Shelters Left

Tax Plan Starts Stampede to Buy Municipal Bonds

By DEBRA WHITEFIELD, *Times Staff Writer*

NEW YORK—Tax revision has worked wonders for Andrew Geller's popularity. The Los Angeles bond dealer said he cannot pull into his driveway without being besieged by neighbors wanting tips on buying municipal bonds.

At his office, too, "we are being bombarded with calls," Geller, senior vice president of the tax-free bond specialist MuniciCorp, said. "There is a frantic, frantic craze to buy municipal bonds right now."

Since congressional [illegible] investors saw how the final bill was shaping up, deposits in funds that invest in municipal bonds have risen even more dramatically—to a monthly equivalent of $1.2 billion from $750 million in July.

"We have seen a tremendous rush into municipal bonds" since the bill emerged from the House-Senate conference committee last weekend, said George Bernard, senior vice president of [illegible] Securities

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Ah, a secret: Prior to my bypass operation, I went to a local Chinese physician and underwent a month of acupuncture. I did this on the basis of a previous good experience with acupuncture and on the opinion of this particular Chinese doctor that she could "strengthen my heart" with acupuncture prior to the open-heart surgery. So I said to myself, "I'll do it, what can I lose -- and it may help me." On top of that, this Chinese physician gave me some tiny herbal pills that she asked me to take immediately after the operation. "All Chinese soldiers carry these pills in combat," she told me, "they have extraordinary curative powers and have saved many lives."

I told my American surgeon the whole story and asked him what he thought. "Darned if I know," he said, "but try it. It's fine with me, and maybe it will do some good." So I did the acupuncture, I took the little pills right after the operation, and I'm still here (but whether the Chinese treatment helped I just don't know. I'm sure they didn't hurt).

Actually, some of our most effective drugs began as herbal remedies, drugs such as digitalis (from foxglove), aspirin (from willow bark) and morphine (from poppies). Interestingly, Upjohn, the giant drug firm, has just announced that it is going to take a serious look at "compounds isolated from 10 Chinese herbal medicines." Upjohn stated that although these compounds have been used by the Chinese for centuries, they have never been studied scientifically by the West. Upjohn also reports that it has signed an agreement with Shanghai Institute of Materia Medica for screening and developing Chinese herbal medicines for use against cancers, heart disease and central nervous system diseases. The Russell bet: Upjohn is making no mistake in investigating Chinese medicine.

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According to the August issue of California Magazine, over the past 10 years 300 Mexican millionaires have moved from Mexico into the La Jolla area. Meanwhile, many wealthy Mexicans have purchased condos in this area while other Mexicans have opened businesses on La Jolla's main avenues. What's happening? It's called capital flight. What's capital flight? It's the act of moving your money from where it's unsafe to where it's safer.

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I guess a lot of you are wondering how much a heart bypass operation costs. Well, I can tell you that I just got the bill for the hospital and drug part of it (eight days in the hospital) and the bill was just over $26,000. The bills from the doctors have not come in yet. All of which brings me to an important point. You should all have some form of medical insurance, particularly insurance that pays for the unexpected whoppers. If you don't have any insurance, let me suggest a deductible major medical policy from a good company such as Travelers. You can get a policy with say a $500 or a $1,000 deductible. That means if you have a $450 medical bill you pay it all. But those aren't the ones that kill you. The biggies like my bypass bill — they're the ones that can knock you flat. And that's where a good deductible policy comes in. What's the advantage of deductible major medical over say Kaiser? Only that you pick the doctor and the hospital. For instance, when it comes to heart surgery I want to pick the doc and the place, and I want the best I can find. Major medical allows you that choice.

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What are those big screaming ads in USA Today? It seems as though USA Today and the Wall Street Journal are in a vendetta. On August 1 USA announced in a full-page ad that the WSJ had (horrors) turned down on a full-page ad. It seems that the Simmons agency has stated that the Journal's readership is going down while USA's is going up, and that USA now has passed the Journal as the most widely read daily in the nation. But the bitterness in the USA advertising is fascinating. We don't care that the Journal turned us down, states Publisher Cathleen Black of USA Today. "We saved $80,630, that's the cost of a full page black and white ad in the Journal. In USA Today, a full page color ad is still only $37,856." I tell you, there's bad blood between the WSJ and USA Today.

In my humble opinion, the Journal has missed the boat in a lot of areas. I still do not feel that the Journal is market minded. If it was, Investor's Daily would not be alive today. Warren Phillips, chairman of the board of the Journal, was in my class in high school, so Warren here's a message. Get into the Twentieth Century. First, forget those little line drawings; people like photos. Next start publishing charts of the major averages, charts of various commodities, charts of the various market indicators. Start talking about the markets. People are getting very sophisticated today, and the Journal (from a market practitioner's standpoint) is back in the 1960s. You just don't provide enough. If I were running the Journal, I'd design the whole second section for market followers, and I'd have charts of everything in there from the daily A-D ratio to the short interest ratio to featured stocks to commodities. In some ways, many other newspapers are now passing the Journal in ease of reading as far as market coverage is concerned. And for 50 cents a crack, the Journal should be offering more -- much more!

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Fidelity (the fund manager) has always been an aggressive outfit, but here's aggressiveness with a capital A. Fidelity has 30 different sector funds (i.e., chemicals, gold, retailing) and traders (I guess you'd call them that) can now trade these funds on an HOURLY basis. There are no current restrictions on the number of trades you can make, but there is a charge of $10 per trade. And in answer to your question, "No, I don't think my subscribers can beat the market with any group of stocks on an hourly basis. Furthermore, I don't think you can out-trade the market on a daily or a weekly basis, either. It just ain't that easy -- or haven't you found out yet?"

The utility section has been HOT, and I've been recommending these stocks for a long time. Investor's Daily runs a computerized list of 46 electric utilities based on a combination of relative strength and earnings per share rankings. The highest is now General Public Utilities, followed by Potomac Electric, Citizens Util. A., San Diego Gas & Electric, Baltimore Gas & Elec., Cilcorp Inc., Wisconsin Elec. Power, Savannah Elec. & Power, Minnesota Power & Lt., St. Joseph Lt. & Power.

PRECIOUS METALS: They're saying that "Japan saved gold" by buying 220 tons of the yellow metal to be used for the new Japanese gold coins (scheduled to appear in November). I don't believe Japan saved gold, but believe it if you want to. I guess South Africa's blacks have saved platinum as well, because the white metal has been soaring, and people are talking about a coming shortage (demand for platinum is now exceeding supply). Put it this way -- I've never believed in the manipulation theories of price movement. Major (primary) trends occur because of fundamental and usually long-lasting reasons. The events of the day rarely if ever set off primary moves.

The gold situation now represents one of the most confusing market puzzles that I have seen in many a year. I say this because we are living in a global economy and we are trading in global markets. In terms of the dollar, gold would appear to be in a bull market (a bull market that started in Febrary 1985 at a London gold fix of 284.) But if you look at the charts of gold in terms of any of the major foreign currencies, all you see is an upward blip following a long and vicious collapse in the price of gold. Thus, the question: Is gold in a true bull market or is it simply adjusting to the severe weakness in the dollar? The jury is still out on that one. And those charts of gold in terms of marks or francs or yen bother me.

This P & F chart is courtesy of my friend Jon Strebler of San Diego (1101 Holly Ave. Imperial Beach, CA 92032--he puts out an interesting report that you might send for). The chart shows the gold picture going back to the late-1970s. What I want you to note is that long bearish trendline which comes down from the 1980 high. This is a very valid and important trendline and it has not yet been reversed to the upside. It would take a London fix of ABOVE 420 to reverse this trendline. Thus, if my P & F count of 432 occurs somewhere in the future, gold will have reversed its 6-year bearish trendline. In other words, any gold rise above 420 would be decisively bullish for gold and would (in my opinion) represent a strong argument to the effect that gold is in a new primary bull market.

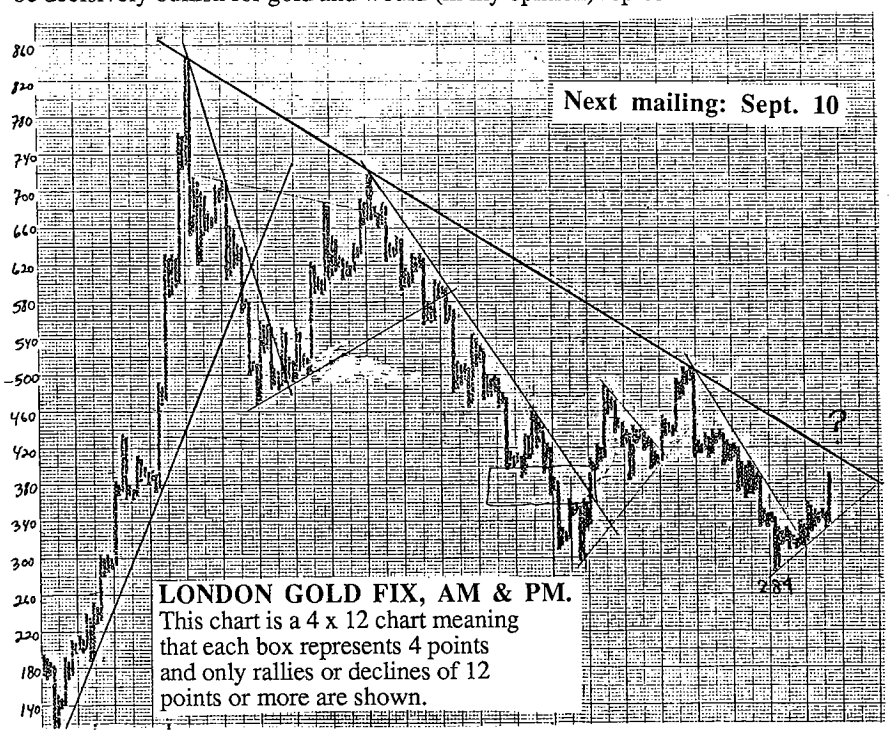
As far as platinum in concerned, the metal has been sky-rocketing and is now above the 550 mark. Those who bought the recommended platinum Nobel coins (one ounce of pure platinum) have no complaints. For those of you who have the stomach to buy the futures, remember that the platinum contract is for only 50 ounces (while the gold contract is for 100 ounces). For my more timid (translation -- normal) subscribers, continue to accumulate both gold and platinum coins. Kruggerands, by the way, are now selling for only $3 above actual gold content (I like 'em).

LATE NOTES: The negative volume index (i.e., an index based on the A-D plurality during days when NYSE volume declines below the previous day's volume) has a normal tendency to decline. Extended periods of rising negative volume are very rare and very bullish. The negative volume index on the NYSE has been in a rising trend since the fourth quarter of 1984. I can't remember seeing anything like this before. Furthermore, the NV Index has just risen to a new high. Prognosis -- very bullish.

The A-D ratio for the NYSE (this is a proxy for ALL NYSE stocks) topped out on March 21, 1986. It was in a declining channel until last week. The A-D line for the 30 Dow Industrial stocks topped out on April 1, and it too was in a declining channel. Now note this: On August 20 both the A-D ratio and the Dow A-D line broke ABOVE the top of their declining channels. I consider both of these breakouts to have bullish implications for the entire market.

The stock market is now extremely over-bought. As a matter of fact, it is only during primary bull markets that we see the market push to such over-bought extremes. Big bull markets can STAY over-bought for quite some time, so it will be most interesting to see whether this bull markt can continue to make any immediate upward progress from here. I would think at this point that the market should consolidate or at least hesitate.

A very powerful market will usually work off an over-bought situation by consolidating and moving sideways (rather than correcting). During such periods it is not unusual (even while the market is consolidating) to see my PTI climbing to new highs. By the way, the PTI was steadfast all during the difficult April-August period in saying that the primary bull trend remained in force. Happily, (see page 2) the PTI last week closed at a new record high of 2366.


Next mailing: Sept. 10
LONDON GOLD FIX, AM & PM.
This chart is a 4 x 12 chart meaning that each box represents 4 points and only rallies or declines of 12 points or more are shown.

On top of the powerful PTI action, the Utility Average has been putting on a spectacular performance of its own, and lately we have been witnessing a long series of record highs in the Utilities. On August 22 the little-watched D-J 65 Stock Average (a composite of the 30 Industrial stocks, the 20 Transports and the 15 Utilities) closed at a record high of 730.46. The D-J 65 is the most sensitive of the composites, and it often LEADS the other major averages.

As for the bonds, the September T-bond contract would have to push decisively above 104 in order to record a new high. My guess is that it's not going to make it, but that it's going to remain in a high-level trading range. I also wouldn't hold my breath for the next cut in the discount rate. I think last week's cut to 5.5% might just about have ended the series.

Final comment: Watch for it. Believe it or not, we may finally see something accomplished in arms control and even a halt to nuclear testing. Why? Russia and the US are both RUNNING OUT OF MONEY for their respective militaries. Ultimately, all political decisions are dictated by economics!